

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3081-01
Bill No.: SB 596
Subject: Business and Commerce; Cities, Towns and Villages; Taxation and Revenue
Type: Original
Date: January 25, 2010

Bill Summary: This proposal establishes the Show-Me Small Business Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0	\$0 or (\$119,966 to Unknown)	\$0 or (\$112,215 to Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0 or (\$119,966 to Unknown)	\$0 or (\$112,215 to Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Various other state funds	\$0	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or (Unknown)	\$0 or (Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	0	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0	2 FTE	2 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the proposed legislation would establish the Show Me Small Business Act. DED is responsible for reviewing the applications and providing a recommendation to the Missouri Development Finance Board for the approval of districts.

DED's Business and Community Services (BCS) assumes the need for one additional FTE to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the applications to make sure they meet the criteria of the program, providing a recommendation to the Missouri Development Finance Board for the approval of the districts, issuing the certificate of tax-favored status and notifying the Department of Revenue. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel. DED assumes a total cost of roughly \$70,000 per year for this FTE.

Oversight assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$6,000.

Officials from the **Department of Revenue (DOR)** state this will require the Department and ITSD-DOR to establish the district in MITS, potentially with an item tax. The Department and ITSD-DOR will need to create indicator for qualifying district accounts in MITS. Not only does the district get formed, but the Department must approve each business. Thus, some accounts in the district will have to collect/remit the full rate while others in the same district collect a reduced or no tax.

A split between months and/or quarters with different taxing rates will add significant complications for the business in regards to reporting and would add a potential increase in errors to processing. DOR assumes the need for one Revenue Processing Technician I for every additional 8,300 registrations/maintenance annually to business tax accounts. DOR assumes the cost for this additional FTE to total roughly \$43,000 per year.

Oversight assumes DOR's estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,600.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Revenue Processing Technician I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

DOR also states their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$71,056 (4 FTE for a total of 4 months to make adjustments to the Missouri sales tax processing system - MITS).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **State Tax Commission** assume the proposal will not fiscally impact their agency.

Officials from **Clay County**, **Greene County**, and **Jackson County** did not respond to our request for fiscal impact.

ASSUMPTION (continued)

Oversight assumes if the constitutional amendment is passed by the vote of the people and if municipality passes an appropriate ordinance, tax-favored status could be given to a district. Oversight assumes there would be a loss of sales tax revenue to the state. Oversight will reflect this possibility as \$0 or and unknown loss to various state funds. Oversight assumes the latest that a general election or special election will be held is November 2010 (FY 2011), and therefore, if the measure is passed, the earliest that such a zone would be created by a municipality and tax favored status would be effective, would be in FY 2012. Oversight will also reflect the potential administrative cost to DED and DOR as \$0 (constitutional amendment is not passed by Missouri voters or no municipality creates such a district) to the estimated expense of administering the program. Oversight will also assume DED and DOR will not incur administrative expenses until FY 2012.

Oversight assumes the proposal allows municipalities to include all sales tax rates to be reduced within the newly created districts (county, municipality, etc.). Oversight also assumes this proposal could have positive fiscal impact to the new districts; however, Oversight considers those benefits to be indirect affects and have to reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Loss</u> - from potential of municipality creating a tax-favored status district	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Costs - DED</u>			
Personal Service (1 FTE)	\$0	\$0 or (\$44,252)	\$0 or (\$45,580)
Fringe Benefits	\$0	\$0 or (\$23,206)	\$0 or (\$23,902)
Expense and Equipment	\$0	\$0 or (\$9,707)	\$0 or (\$4,421)
<u>Total Costs - DED</u>	\$0	\$0 or (\$77,165)	\$0 or (\$73,903)
FTE Change - DED	0 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2011 (10 Mo.)	FY 2012	FY 2013
<u>Costs - DOR</u>			
Personal Service (1 FTE)	\$0	\$0 or (\$24,061)	\$0 or (\$24,783)
Fringe Benefits	\$0	\$0 or (\$12,618)	\$0 or (\$12,996)
Expense and Equipment	\$0	\$0 or (\$6,122)	\$0 or (\$533)
<u>Total Costs - DED</u>	\$0	\$0 or (\$42,801)	\$0 or (\$38,312)
FTE Change - DOR	0 FTE	1 FTE	1 FTE

ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 or (\$119,966 to Unknown)</u>	<u>\$0 or (\$112,215 to Unknown)</u>
Estimated Net FTE change for General Revenue	0 FTE	2 FTE	2 FTE

VARIOUS OTHER STATE FUNDS

<u>Loss</u> - from potential of municipality creating a tax-favored status district	\$0	\$0 or (Unknown)	\$0 or (Unknown)
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ESTIMATED NET EFFECT TO VARIOUS OTHER STATE FUNDS	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
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LOCAL POLITICAL SUBDIVISIONS

<u>Loss</u> - from potential of municipality creating a tax-favored status district	\$0	\$0 or (Unknown)	\$0 or (Unknown)
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ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
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FISCAL IMPACT - Small Business

Small businesses within the newly created districts could see increased sales if the tax rate is lower than their competitors outside the district or even inside the districts (non-small business) because of this proposal.

FISCAL DESCRIPTION

This proposal allows the governing bodies of any city in this state to designate Show-me Small Business Districts within such city for no longer than twenty-three years. During such designation period, eligible small businesses within such areas may receive tax-favored status for a term not to exceed fifteen years. Tax-favored status is defined as a reduction to or elimination of the rate of tax on transactions imposed under Missouri's sales and use tax laws. Show-me small business districts may only be established in blighted areas located within qualified census tracts. The act requires the governing body of a municipality to hold public hearings prior to the adoption of an ordinance designating an area of such municipality as a Show-me small business district. The act requires the governing body to provide notice of such hearings to affected taxing districts and the public. Upon receiving municipal approval, the designation must be approved, at the same rate of tax and term, by the county in which the city is located and by the Missouri Development Finance Board.

Upon the issuance of a certificate of approval from the Missouri Development Finance Board, small businesses located within a Show-me small business district may apply to the Department of Economic Development to receive tax-favored status for a term not to exceed fifteen years. In order to receive tax-favored status, an eligible small business owner must report the amount of taxes deferred, on an availability basis, for the duration of the time in which it receives tax-favored status. Municipalities are prohibited from having more than one duty free zone in existence, within such municipality, at any given time.

The act contains a contingent effective date. The provisions of the act will become effective upon voter approval of a constitutional amendment authorizing the creation of tax-free or reduced-tax geographic districts for the purpose of promoting small business development to further economic development.

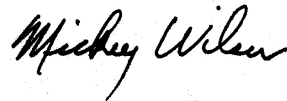
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Revenue
Department of Economic Development
State Tax Commission

NOT RESPONDING:

Clay County
Greene County
Jackson County

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 25, 2010